

ABSOLUTE RETURN INCOME EQUITY FUND

31 Aug 2020
APIR code: GYC6212AU

Retiree income risk managed to protect and grow capital – ‘highly defensive’ manage uncertainty through portfolio design

Gyrostat complements existing portfolios as a defensive allocation to reduce portfolio risk, increase income, and increase returns. We reliably increase in value on market falls with the extra protection always in place whilst providing higher income.

Gyrostat has operated for 39 consecutive quarters within a 'hard' pre-defined risk parameter which is always in place, delivering regular income by passing through ASX-20 dividends and profits from risk management overlay, and meeting returns guidance based upon market conditions (demonstrating increasing returns with market volatility). The Fund buys and holds ASX-20 and international assets with **lowest cost protection always in place** with upside. It is a 'highly - defensive' **conservative** asset. Further background is provided in our recent Inside Network interview:

<http://www.gyrostat.com.au/news/inside-network-interview/>

Fund performance – Total Return

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Inception
Fund net	-1.27	-1.78	3.02	5.94	5.54	3.74	4.74
RBA cash rate	0.01	0.04	0.18	0.67	1.46	1.68	2.48

* total return is compound annual growth rate as defined by Financial Services Council

Investment Objectives

- **Returns:** 6% - 8% pa in trending markets, greater than 8% pa in volatile markets, BBSW + 3% in stable markets
- **Income:** Minimum **cash rate + 3%** paid quarterly (**FY20 5.8% p.a.**) from dividends and franking credits
- **Protection:** No quarterly NAV draw-downs exceeding 3%. Also includes a 'tail hedge' for gains on large market falls

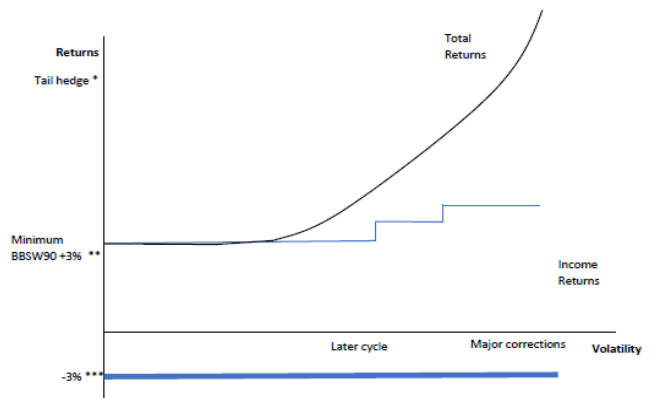
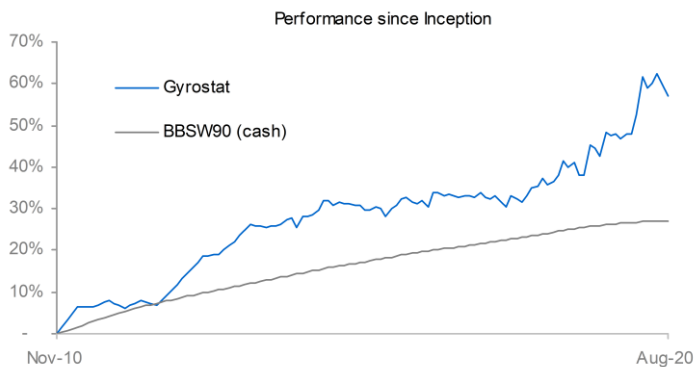
Further details can be found in our Information Memorandum

Portfolio Inception	December 2010
Minimum Investment	AUD 50,000
Management Fee	1% per annum
Performance Fee	15% of excess return
Hurdle Rate	BBSW 90 + 3%
High Water Mark	quarterly
Distribution (paid quarterly)	≥ BBSW 90 + 3%

Fund performance – Return by Month

FY	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
2021	-2.07	-1.27											-3.32
2020	-1.30	3.97	-0.45	0.12	-0.78	0.80	-0.11	3.27	5.88	-1.70	0.77	1.59	12.45
2019	0.19	1.54	-1.07	0.39	1.14	2.60	-1.06	0.63	-2.07	-0.09	5.29	-0.42	7.09
2018	-0.38	0.75	-0.71	-0.37	0.52	-1.11	-0.84	2.18	-0.75	-0.43	0.97	1.56	1.35
2017	-0.70	-0.31	0.38	-1.20	2.85	0.06	-0.84	0.29	-0.12	-0.41	0.36	0.09	0.41
2016	-0.05	-0.21	0.01	-0.79	-0.12	0.73	-0.44	-1.41	1.38	0.63	1.32	0.15	1.16
2015	0.71	0.59	-2.07	2.25	-0.11	0.33	1.06	1.74	0.03	-0.80	0.33	-0.22	3.82
2014	0.84	0.84	0.84	1.08	1.08	1.08	-0.19	-0.19	-0.19	0.21	0.21	0.21	5.96
2013	1.04	1.04	1.04	1.26	1.26	1.26	1.11	1.11	1.11	0.21	0.21	0.21	11.41
2012	0.43	0.43	0.43	-0.55	-0.55	-0.55	0.58	0.58	0.58	-0.31	-0.31	-0.31	0.44
2011	-	-	-	-	-	1.59	1.59	1.59	1.59	0.00	0.00	0.00	6.54

* total return is compound annual growth rate as defined by Financial Services Council **** Highest returns on large market falls and rallies (low correlation with market)**



* Tail hedge always in place for large gains on large market falls
** Funded by pass through of ASX20 dividends
*** Hard risk parameter, no quarterly capital drawdowns exceed 3%

Gyrostat compounded returns are net of fees and include franking credits, cash (BBSW90) includes re-investment of interest.

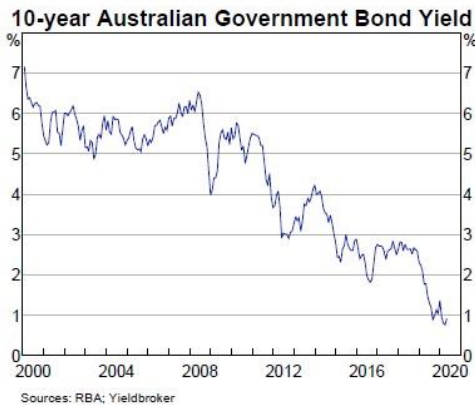
Commentary

- The Fund NAV at 30 Aug was \$0.85046. Returns were lower as volatility fell consistent with our guidance for stable markets.
- The market conditions in August enabled us to enter additional positions for more elevated returns on any uplift in market volatility. Our investment Strategy allows up to 15% of the Fund's assets to be invested in international assets with positions in SP500, Nasdaq, Hang Seng, MSCI Developed and Emerging markets (amongst others). We anticipate returns in all market environments of at least BBSW 90 + 3% (enabling investors to receive income and capital growth.) with 'left' tail in case of large market falls.
- We anticipate increasing levels of 'late cycle' market volatility with geopolitical, historically high debt levels, and valuations elevated.

Why Gyrostat? Manage uncertainty through portfolio construction

The unexpected happens. Gyrostat is a highly defensive non correlated asset to fortify your portfolio in an uncertain world

Generate reliable income including if dividends are cut



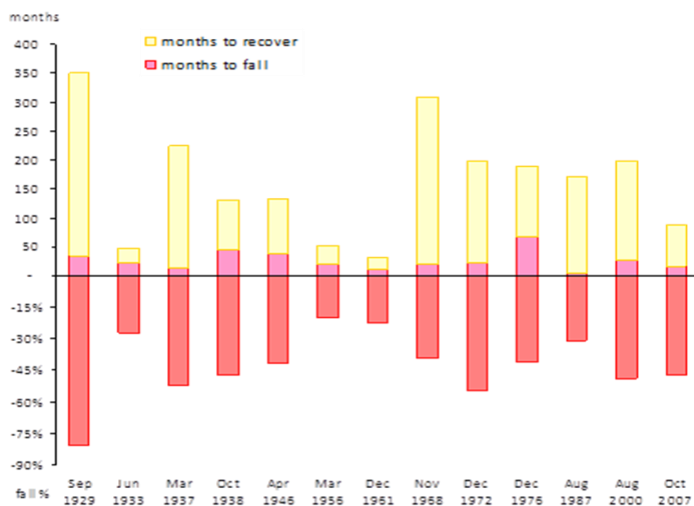
The gap in today's market is a conservative asset that provides regular income by passing through ASX20 dividends and profits from risk management overlay (particularly on dividend cuts) and reliably increases in value with market volatility (particularly large market falls). Capital growth is delivered when others don't – in trending and more volatile markets (including large 'one off' share price falls.)

There have been significant advances in risk management for conservative investors. By combining the three broad approaches and adjusting asset allocation now, it is possible to prepare for volatile markets (including large 'one off' share price falls).

<http://www.gyrostat.com.au/news/gyrations-august-2020/>

Avoid regret – hold non correlated assets in your portfolio

SP500 index: 90 year historic chart. Peak to trough falls > 20, duration of falls, time to recover



Major Corrections are a regular and hazardous feature of the market cycle. Predicting the future in an uncertain world can threaten your future when predictions are wrong

An approach that has been well recognised to work for all market conditions is to construct a portfolio with diversified non-correlated assets

The graph shows the extent of falls from peak to trough, the duration of the fall, and time taken to recover to pre fall. Most corrections occur within 8 years, now at year 13, longest on record is 13 years.

There are 8 instances of market corrections exceeding 40% within a 6-12 month timeframe.

Gyrostat has significant positions in international markets including SP500, Nasdaq QQQ, Hang Seng designed to increase in value on major market falls.

Base rate: Stock market will re-test previous falls

How to deal with uncertainty? Base rate

In a world of such uncertainty, Kahneman and Tversky suggest that you start with a 'base' rate.

The base rate is that stock markets will re-test previous falls. "... in 19 of 19 post-war instances of a 15% uninterrupted decline (excluding the current one), the stock market ended up re-testing the waterfall low in some fashion. Basically, markets tend to rally after "waterfall" declines. Until recently, test case #20 (Q4 2018) was the outlier. That low has now been re-tested."

<http://www.gyrostat.com.au/news/feature-article-portfolio-structure-and-uncertainty/>

Market	High 19 Feb 2020	50% decline level	Market 17 August 2020	50% fall peak to trough scenario	March 23, 2020 lows	Re-test falls
SP500	3386	1693	3381	-50%	2237	-34%
Nasdaq	9817	4808	11129 *	-57%	6860	-38%
ASX200	7163	3581	6077	-41%	4546	-25%
Hang Seng	29056 *20 Jan	14528	25347	-42%	21696	-14%

* Nasdaq has exceeded 19 February 2020 previous high

Platforms

Mason Stevens

Netwealth

Powerwrap

Disclaimer

This information is limited to information about the Fund, is general advice only and does not take into account your particular circumstances, your personal investment or financial planning objectives, your investment knowledge, needs and requirements, including taxation implications that may result from investing in the Fund.

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Gyrostat Capital Management Pty Ltd
www.gyrostat.com.au

T: +61 (3) 8678 1742